The United States as a Creditor Nation and the Development of the Export Trade

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In discussing the subject noted in the title, it will be worth while to devote a little space to establishing the fact that the United States is a creditor nation, and to what extent it is such.

Just a decade ago a careful study of the extent of foreign investments in the United States was made for the National Monetary Commission.[1] According to this estimate Great Britain had invested in American securities about $3,500,000,000; German investments amounted to about $1,000,000,000; those of Holland were placed at $750,000,000 and of French capital at nearly $500,000,000. In the aggregate the amount of European capital—and that means of all foreign capital—invested in permanent securities in the United States was stated to be approximately $6,000,000,000. The net payments of interest on this capital, after deducting the amounts owed citizens of the United States for their investments abroad, required the remittance annually by this country of between $175,000,000 and $225,000,000. Other expenditures, such as expenditures of American tourists abroad, remittances by immigrants, freights, insurance and similar smaller items, brought the total annual net payments due other countries up to about $500,000,000.

These charges were met in general by the excess of our merchandise exports over our imports. For the five fiscal years, 1910 to 1914, the merchandise exports and imports were as follows:

Merchandise Exports and Imports, 1910–1914

In Millions

	1910	1911	1912	1913	1914
Total Exports	$1,744.9	$2,049.3	$2,204.3	$2,465.8	$2,364.5
Total Imports	1,556.9	1,527.2	1,653.2	1,813.0	1,893.9
Excess of Exports	$188.0	$522.1	$551.1	$652.8	$470.6

As the average for these five years is $476,900,000 it is evident that the excess of exports over imports merely sufficed to meet the current fixed charges against this country for interest and services, and was not applied to the liquidation of our foreign indebtedness. We may therefore conclude that this remained in 1914 practically at the same point where it had stood in 1910.

With the outbreak of the World War the demands of Europe upon the

[1] George Paish, "The Trade Balance of the United States," in *Report of the National Monetary Commission*, XX, p. 169.

United States for munitions and supplies of every kind grew enormously, while at the same time the shipments of goods to pay for these supplies fell off from the pre-war level. The following table shows the trade with Europe during the three fiscal years, 1915 to 1917:

MERCHANDISE EXPORTS TO AND IMPORTS FROM EUROPE 1915–1917

In Millions

	1915	1916	1917
Exports to Europe	$1,944.3	$2,972.3	$4,324.5
Imports from Europe	614.3	616.2	610.5
Excess of Exports	$1,330.0	$2,356.1	$3,714.0

The excess of exports over imports for these three years thus amounted to about $7,400,000,000. If there be set against this sum the gold imports and an allowance for the usual charges against the United States for interest, freight, insurance, foreign travel, etc., which together might be estimated in the aggregate at about $2,000,000,000 for the three-year period, it will be seen that at the time of our entrance into the war the United States had nearly, if not quite, liquidated her foreign indebtedness and by the end of the year 1917 had certainly attained the position of a creditor nation.

After our entrance into the war the United States government became the banker of the Allies and advanced them credits to the amount of $9,710,000,000. When these advances ceased, private capital was called upon to make further loans to Europe to aid in the work of reconstruction. It has recently been estimated[1] that private advances and credits to the amount of $3,500,000,000 have accumulated against Europe in the period between January 1, 1919, and September 15, 1920. If to these items there be added other loans and investments in Central and South America, in Canada and in Mexico, and in other regions, it is certainly no exaggeration to claim that the United States is today a creditor nation to an extent of not less than $10,000,000,000 to $12,000,000,000. The annual interest charge on this sum at 5 per cent would be $500,000,000 to $600,000,000. Moreover, many of the items for which we formerly remitted to Europe, as freights or insurance, are probably now payable to the United States, while others, like tourists' expenditures, are greatly reduced; it may safely be estimated that the former payments to Europe will be cut in half. Instead, therefore, of having to remit to Europe some $500,000,000 a year in excess of our imports, we shall be in receipt of excess payments from the rest of the world of not less than $250,000,000 to $350,000,000.

EFFECTS OF BEING A CREDITOR NATION

To be a creditor nation means the receipt by citizens of this country of surplus income from sources outside the country itself; it means normally larger imports than exports. As a

[1] B. M. Anderson, Jr., in *The Chase Economic Bulletin*, I, No. 1, p. 8. Issued by the Chase National Bank, New York City, October, 1920.

debtor nation we were compelled to export more than we imported; as a creditor nation we may import more than we export. What effect will this changed situation probably have upon our export trade?

In the first place, little or no effect may be observable for a period owing to extraordinary or temporary occurrences. Thus the present abnormal situation in Europe compels further borrowing by them from this country instead of meeting the obligations already incurred. Even the payment of interest on our government advances has been deferred for a period of three years. It is unlikely that Europe's balance of trade with the United States will become favorable in any shorter length of time. It is conceivable, but altogether unlikely and undesirable, that these debts might be met by further shipments of gold to this country. They might also be canceled by the transfer of American securities to this country, but this movement has already gone so far that this resource is pretty well exhausted.

The full effects of our changed situation may also be delayed by the investment abroad of the excess payments due us. In other words, our trade balance may continue to show an excess of exports over imports and we may be content to accept securities and promises to pay rather than commodities and services. Finally, our tariff policy may make it so difficult for foreign nations to sell to us, or even to pay us what they owe, as to retard the normal working out of our changed commercial relations. Any such delay will only defer and not alter the outcome; indeed, it will only aggravate it and will necessitate still larger excess payments to us in the future. The effects of being a creditor nation may be postponed but can not indefinitely be averted.

Let us assume, therefore, that the ultimate and permanent effects of being a creditor nation are in full operation and that our imports exceed our exports; or, as it is generally stated, that our balance of trade is "unfavorable." What effect will this probably have upon our export trade? Several possibilities suggest themselves.

1. The relation between imports and exports may be altered, but yet no falling off may occur in our exports. Both may continue to grow, though imports may grow more rapidly until they overtake and pass exports. This has been true of other nations and may well be true of the United States. Thus the export trade of such creditor nations as Great Britain, France, the Netherlands, Germany and Belgium showed a steady and in some instances a remarkable growth during the half century before the World War. In 1800, the imports of Great Britain amounted to $140,000,000 and the exports to $165,000,000. Both of these grew steadily throughout the nineteenth century, although the former grew so much more rapidly that in 1900 the imports were $2,300,000,000 and the exports $1,415,000,000. The large excess of imports over exports in the last named year resulted in part from the earnings of British foreign investments, which amounted in 1914 to about $20,000,000,000. It is estimated that before the outbreak of the World War the British people gained from such investments about $1,000,000,000 annually, of which perhaps $200,000,000 was received by them in the form of surplus income, while the balance, or $800,000,000, was reinvested abroad.[1] It may safely be assumed that a similar course

[1] For fuller details on this and some other topics treated briefly in this paper, see my book, now in press, *War Costs and Their Financing*, to be published by D. Appleton and Company.

of development in the United States will cause a steady growth in exports, but a still more rapid increase in imports.

2. Our exports may be affected by the character of the imports. Proceeding on the assumption that our imports will exceed our exports and that the balance will not be paid in gold, it is clear that the excess must be paid in commodities. These commodities may be either consumable commodities or raw materials and partly manufactured goods. It is probable that the debtor nations of Europe will endeavor to cancel part of their obligations to us by shipments of colonial products, as jute and tea fron India, tin and rubber from the Straits Settlements, coffee from Java, wool from Australia, etc. Considerable time must elapse before Europe will be able to send us large amounts of manufactured goods to compete with our domestic products. In so far as these imports consist of foodstuffs, semi-luxuries and other consumption goods, there would result a more plentiful supply, cheaper prices for them and for all competing articles or substitutes, and to that extent a higher standard of living.

It is, of course, conceivable that the receipt of such a surplus might induce a certain amount of indolence; we might prefer to live on our incomes and enjoy more leisure instead of working. But such a result is altogether improbable under the existing distribution of wealth, the modern organization of industry, the prevailing "price and profit" system of enterprise, and the present habits of thrift and work of the American people.

The larger part of the imports would doubtless continue to be, as they have been in the past, raw materials and partly manufactured goods, whose possession would permit our manufacturers to increase their own production of finished goods. Domestic competition would be stimulated and sharpened and a larger market would be sought. This larger market might be found at home if at the same time the importation of competing European goods fell off. Such a contingency could not be more than temporary, however, for eventually direct importation from Europe must assume large proportions and their manufactured articles compete with our own in the United States. To the extent to which this pressure becomes severe will the need be urgent of finding a market outside of the United States for some, at least, of our own manufactures if prices are to be maintained.

3. Will markets be open to our export trade? Our recent experiences in domestic trade have illustrated the fundamental truth that the purchaser, in the final analysis, determines the volume and character of commerce. The same thing is true of international trade. The question may therefore be stated in another way: Does the world want our wares? There can be no doubt as to the immediate answer, for the world needs what we have to offer and is taking all we can spare. Europe is buying for her own needs, and is less able than formerly to supply the wants of non-European nations, which therefore turn to us.

It has been estimated that the British have lost probably one-fourth of the $20,000,000,000 foreign investments, which they owned before the war, either by transfer to the United States or in other ways. Of the foreign investments of the French, amounting to some $8,500,000,000 and placed principally in Russia, Turkey, Rumania and Mexico, fully one-half must be accounted as irretrievably lost; while the German foreign investments

of perhaps $5,000,000,000 have been or will be largely transferred to the Entente Allies. Rendered immeasurably poorer by the war, these peoples will have to work harder to supply their own wants. At the same time, they have plunged heavily in debt to the United States, and will be compelled to send to this country many of the surplus goods with which they formerly supplied other markets. This will leave these markets open in greater measure than formerly to us. This is especially true during the period of reconstruction in Europe when domestic needs are urgent. It thus becomes our duty as well as our opportunity to increase our exports.

But what of the future when Europe has recovered from the destruction of war and is able to compete again as formerly? The European nations will continue to demand our great agricultural staples, and the more they develop their manufacturing industries the greater will this demand be, both for raw materials and for foodstuffs. The growth in population, in economic development and in intelligence of non-European countries will at the same time create demands for manufactured goods which Europe alone will not be able to supply. If the economic development of the newer countries is not to be delayed, they must be supplied with capital goods; that is, with railway equipment, farm machinery, etc., as well as with articles for immediate consumption.

The present interest of the European states seems to lie in the exploitation of the Balkans; an increasing demand for our capital will come, therefore, from North, Central and South America, and from Asia. There can be no question as to the continuance and growth of this demand; every technical improvement in industrially advanced countries widens the gulf between them and the less advanced countries and makes more imperative the introduction of improvements into the latter if they are to share adequately in the economic progress of the world.

4. The character and destination of our exports have already been indicated. The greatest need on the part of other countries will be for capital goods to assist them in their work of production. In the case of Europe the demand is for machinery and equipment and raw materials; in the newer countries it is for capital to assist in the exploitation of rich natural resources. For them the largest profits lie in the exploitative industries, and the exchange of their raw products for the manufactures of more advanced communities. They will, therefore, demand finished consumption goods also for immediate use. In both of these lines—that of farm and mining machinery, railway equipment, etc., and that of staple articles of general consumption—the United States is preëminent with her methods of large-scale mass production. The best markets for both of these lines will be the Americas, Asia and Africa, with all of which our export trade has shown the greatest relative development since the pre-war period. There is every reason to suppose, therefore, that our export trade will continue to develop along the lines already marked out.

5. Is export trade essential to American prosperity? In the discussion thus far, the continuance of an export trade in increasing volume to supply the expanding needs of the world has been assumed. There are those, however, who argue that Great Britain, France, Germany and other European nations will soon regain their former trade, will undersell the United States in foreign markets as a result of their more favorable rates of exchange, and that the export trade of the United

States will soon fall off. It will be worth while to examine this aspect of the case. Let us therefore assume that imports increase and that exports decrease and that the balance of trade becomes permanently "unfavorable." Does this spell ruin to American industry?

In answering this question it must be borne in mind that the growth in imports is, in part at least, the reward for past frugality and investment. The situation is in effect that of an individual who has saved and invested and enjoys income from productive investments in addition to earnings from current business. Such additions to income raises the general standard of living.

On the other hand, smaller exports do not necessarily mean the shutting down of factories, closing of mills and throwing men out of work. Compared with domestic trade, our foreign commerce does not after all bulk very large—it is perhaps one-thirtieth as great. The falling off of exports would simply mean the diversion to domestic production of the labor and capital formerly devoted to satisfying the needs of foreigners. Indeed, the argument is being made that we need to devote all our productive capacity to the satisfaction of domestic demands, and that in the case of manufactured articles at least there will be no surplus to spare for many years.

Investments

Our foreign investments during the war represent to a considerable extent the diversion of capital which would normally have been invested at home and to that extent would have decreased domestic production. Our railroads and industrial establishments are less well equipped today because we devoted ourselves to the manufacture of munitions and supplies for the European belligerents. Our foreign investments, therefore, do not wholly represent net savings, but rather production for the needs of others at the expense of domestic consumption and also of the upkeep and expansion of our national industrial plant. It is necessary now to repair these deficiencies, and to devote our energies to domestic needs rather than to foreign demands. From this standpoint the falling off of exports may be regarded with satisfaction.

That there are plentiful and profitable opportunities for investment in the United States scarcely needs demonstration. The West has been for us a vast colonial empire into which billions have been poured and which still calls for further development. And now the South, tardily entering upon a promising industrial evolution, affords further opportunity. To bind together these sections and afford better means of transportation, vast sums must be spent on the railroads, on internal waterways and on roads; electrical power is needed to drive the machines yet to be built. There is scarcely a limit to our national needs.

Such development, however, takes time, and quicker profits may perchance be made by the export of our cheaply manufactured commodities to the teeming markets of the Orient or to South America, where they can be exchanged for the products of those countries. Much of our foreign trade is of this character and its diversion to the satisfaction of domestic needs might entail a loss. Whether our productive energies will be devoted to the satisfaction of domestic or foreign demand will after all be determined by the comparative profitableness of the two, all things considered.

Against the growth of exports are working such factors as ignorance, unwillingness to venture upon the unknown, the extent of domestic de-

mand, the political and financial instability of foreign governments and unfavorable conditions of exchange. In favor of the export trade there should be considered, not merely the percentage of gain per unit of goods exported, but also the economies from larger production thus made possible; its educational value by reason of the greater intellectual demands it makes; and the development of closer international ties. The advantages of foreign trade are not measured merely in dollars and cents.

Imports, the Tariff and American Foreign Trade

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THE tariff policy of the United States since our Civil War has been dominated by the purpose to protect and encourage the development of new industries. During most of the time, the political party which avowedly favored this policy has been in power at Washington, and during the short periods that the opposition was in power it could not undertake to make very radical changes. Even if one accepts the doctrines of free trade as theoretically sound he is forced to admit that a people who possess a country of vast natural resources, like the United States, capable of supporting a great population and of developing a variety of industries, will be inclined naturally to use their governmental powers to hasten such development. They are not likely to be content to await the slower processes of unaided growth. Practically all new countries adopt the policy of stimulating development, the daughter dominions of free-trade England as well as the others.

That the policy of protection has been effective in hastening the development of this country, diversifying its industries and increasing its population, will be admitted by many who think the time has come now for giving greater consideration to balanced and mutually advantageous trade with other countries.

The main purpose of the protective policy in the past has been to get our domestic industries into a more balanced state, with factories to supply our own wants and to employ a population which would create a home market for our agricultural products. The policy of protection was not pursued to promote foreign trade. We have not been acting with a view to developing foreign markets. We have not been thinking about foreign markets, or planning to enter them with manufactured goods. In fact, the argument for protection has been based upon the theory that we could not compete successfully with foreign goods in open markets.

In recent years, however, our attitude in this respect has been changing. In many lines of goods our producers have demonstrated their ability to compete in the markets of the world and to maintain a profitable and growing volume of sales. What they have done, there is reason to believe that others can do, if they have a fair chance, and the interests of those who are building up an export business are beginning to clash with the interests of those who claim that they must have protection to enable them to succeed even in the home market. I propose to set forth briefly some of the points where these interests come in conflict.